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ENSIGN

Ensign Resource Service Group Inc.

1998 Annual Report

Ensign Resource Service Group Inc.

NOTICE OF ANNUAL MEETING

The Annual General Meeting of shareholders will be held on Wednesday, May 19, 1999 at 3:00 pm at the Calgary Petroleum Club. All shareholders are invited to attend, but if unable, we request the form of proxy be signed and returned.

CORPORATE PROFILE Ensign Resource Service Group Inc. is an oilfield contractor that provides energy services in drilling, well servicing, manufacturing and production services to the oil and natural gas industry. With its headquarters in Calgary, Alberta, the Ensign Group is an industry leader in North America. Since its inception in 1989, the Ensign Group has accumulated an extensive rig fleet characterized by flexibility and mobility for meeting the challenging demands of the oil and natural gas industry. The Ensign Group has also contributed to advancements in drilling and well servicing through the innovative use of technology, and has an established reputation for the highest safety standards and environmental stewardship. ■ The Ensign Group is the public holding company for eight divisions. Four divisions – Champion Drilling, Ensign Drilling, Tri-City Drilling and Caza Drilling – provide oil and natural gas drilling services in western Canada and the United States, and three divisions – Rockwell Servicing, Leyen Oilwell Servicing and Continuous Tubing – provide oil and natural gas well servicing services in western Canada. The Ensign Group also provides manufacturing and production services to the Canadian oil and natural gas industry through Opsco Energy Industries. ■ The Company's shares are listed on The Toronto Stock Exchange under the trading symbol "ESI".

1998 Highlights and Corporate Profile

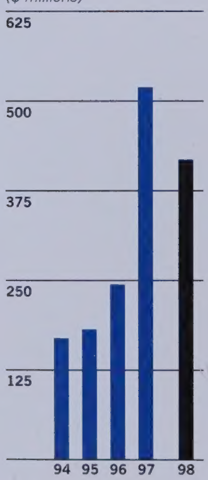
Financial *($000s, except per share data)*	*1998*	*1997*
Revenue	**418,919**	517,500
Cash flow	**73,053**	96,716
Per share	**3.24**	4.69
Income	**48,790**	68,035
Per share	**2.16**	3.30
Shareholders' equity	**261,901**	148,592
Long-term debt, net of current portion	**44,823**	26,518
Average number of shares outstanding	**22,581,627**	20,615,674
Return on Shareholders' equity	**24%**	58%

Operating		
Number of drilling rigs	**182**	149
Number of well servicing rigs	**115**	95
Wells drilled (Canada)	**2,492**	3,008
Wells drilled (U.S.)	**332**	517
Rig utilization rate (%)		
Drilling (Canada)	**39.8**	72.3
Drilling (U.S.)	**37.6**	52.2
Well servicing	**45.4**	92.9

To Our Shareholders

In looking back on 1998, it was the beginning of what will be characterized as a challenging period for our industry. Market conditions, in particular oil prices, weakened over the course of 1998. As a result, our customers' cash flow levels were negatively impacted, making less capital available for drilling which in turn caused lower equipment utilization and lower day rates.

Revenue
($ millions)



Because our business is directly impacted by commodity prices, we experienced lower overall activity levels in 1998 particularly in comparison to 1997 – a record year in the oilfield services industry.

To reduce the impact of falling utilization brought about by falling crude oil prices, in early 1998 the Ensign Group strengthened measures in all divisions to ensure that operating costs were tightly controlled. With this cost structure in place, our rigs operated at cost targets based on reduced activity levels and a low commodity price environment, allowing the Ensign Group to make positive gains and respond to its customers pricing demands in the face of an over-supplied oilfield services market.

Financial Results Reflect Market Conditions

While the first quarter of 1998 represented the strongest quarter in our history due to an expanded rig fleet and a strong winter drilling season, the Ensign Group's financial results for the year ended December 31, 1998 are consistent with the decline in activity in the North American oil and natural gas industry during the year. The oversupply of crude oil in the world market resulted in an average West Texas Intermediate crude oil price of US$14.38 per barrel compared to an average price of US$20.59 per barrel in 1997. Lower oil prices were only somewhat tempered by stronger North American natural gas prices, and the significantly reduced cash flow levels of our customers led to a reduction in spending on oilfield services.

During fiscal 1998, the Ensign Group generated revenue of $418.9 million compared to $517.5 million in 1997. Cash flow totaled $73.1 million ($3.24 per share) compared to cash flow of $96.7 million ($4.69 per share) in 1997. Income decreased to $48.8 million ($2.16 per share) in 1998 from $68.0 million ($3.30 per share) in 1997. In terms of our operating results, our Canadian drilling divisions drilled a combined total of 2,492 wells in Canada in 1998, representing a 17 percent decrease over the 3,008 wells drilled in Canada in 1997. Utilization rates for our Canadian drilling divisions dropped to 40 percent in 1998 compared to 72 percent in 1997. Caza Drilling, our United States drilling division, also experienced a 28 percent reduction in overall activity in 1998. For well servicing, overall equipment utilization rates were also lower in 1998, as a result of the reduced level of activity in the Canadian oil and natural gas industry.

Our Growth Drivers

While oil and natural gas commodity prices and industry conditions are factors beyond our control, the ability to meet and exceed our customers expectations and adhere to our defined corporate strategy will drive our ability to grow market share and, ultimately, shareholder value. These core fundamentals will continue to contribute to our growth in 1999 and beyond.

Strong North American Presence

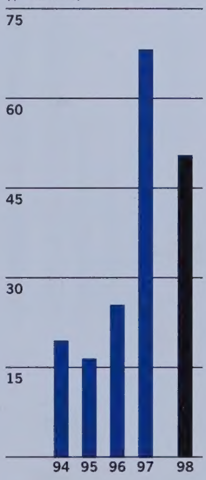
One of the Ensign Group's core strengths is our diverse base of operations. We are represented in all major oil and natural gas producing areas of the Canadian Western Sedimentary Basin and the Rocky Mountain region of the United States. With this geographic diversification, the Ensign Group is able to offer value-added services to a broad market, providing our customers with expertise in identifying and utilizing new technology.

Our acquisition of Artisan Corporation by way of merger in the second quarter of 1998 is an example of the Company's opportunistic strategy to expand our North American presence. This acquisition increased our Canadian drilling rig fleet by 32 percent and our well servicing fleet by 21 percent. It opened up new drilling markets for the Ensign Group, further expanded our customer base and added new products and services. Today, our expanded company offers a greater range in the availability and selection of drilling, well servicing and other oilfield services to our customers.

The Ensign Group is currently the third largest land-based oil and natural gas drilling contractor in North America, operating a total of 182 drilling rigs. We are the third largest well servicing contractor in Canada with 115 well servicing rigs. In addition, our assets include 26 production testing units, 24 wireline units, 13 coiled tubing units and a manufacturing facility.

In terms of market share, our Canadian drilling divisions represented 23 percent of the total available drilling rigs in Canada in 1998. Our well servicing divisions hold approximately 14 percent of market share in Canada and our United States drilling division holds market share of approximately 25 percent in the Rocky Mountain region of the United States.

Net Income
($ millions)

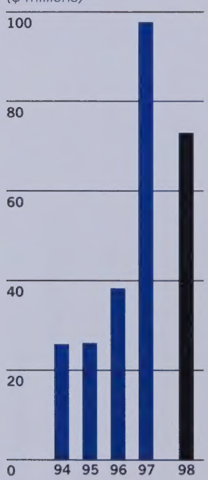


Achieving Customer Satisfaction

Ultimately, the satisfaction of our customers drives the success of the Ensign Group and we remain committed to providing exceptional value and service. We continue to build relationships with our customers by creating alliances and developing pricing structures that work for their individual needs. Our United States drilling division, for example, has over the years developed valuable drilling knowledge in various areas throughout the Rocky Mountain region, allowing it to derive higher returns through added value "footage" or "turnkey" contracts.

Our merger with Artisan Corporation increased our Canadian drilling rig fleet by 32 percent and our well servicing fleet by 21 percent. Today, we are able to offer our customers a greater range in the availability and selection of drilling, well servicing and other oilfield services.

Cash Flow
($ millions)



The quality of our assets is also an important factor in ensuring our customers' satisfaction. By adhering to a strict maintenance and safety policy, we add value for our customers in providing the highest equipment certification, minimal lost time due to injuries and high levels of performance. In addition, our broad operating base allows us to offer our customers minimal disruption to their activity because our equipment is often located in close proximity to their operations.

A Solid Strategy

Regardless of market conditions, our corporate strategy has remained focused on achieving growth in shareholder value by building on our leadership position and providing quality service to our customers.

As a management team, we will continue to pursue an "opportunistic" approach towards acquisitions and growth. This means that we are not simply pursuing growth for the sake of growth. Instead, we utilize our strong financial position to take advantage of opportunities, we pursue acquisitions which do not threaten our long-term viability, we retain and employ highly-talented, capable employees, and, finally, we retain the necessary infrastructure and systems to accommodate future growth and maintain efficient operations.

Our current acquisition growth strategy is focused on continued consolidation or market expansion to achieve greater representation in core North American markets. Diversification of our products and services is presently a secondary priority. The acquisition of Artisan Corporation demonstrates our most recent application of this strategy which allowed us to establish a presence in new geographic areas for both drilling and well servicing.

Acquisitions must also be accretive. For the Ensign Group "adding shareholder value" is not a cliché. We have achieved growth without diluting shareholder value by pursuing expansion opportunities primarily using internally generated funds. This financial discipline has resulted in our selective, opportunistic approach towards expansion.

Another component of our corporate strategy is to continue to focus on specialized and complementary energy services including horizontal drilling, under-balanced drilling, slant well drilling and servicing and the provision of coiled tubing services. Again the Artisan acquisition demonstrates an effective application of this strategy. With the addition of Artisan, we have introduced the use of coiled tubing well servicing to our product offering, opening up a new market segment for the Ensign Group. We have easily assimilated this new technology into our well servicing operations and we have been able to promote this service to our broad customer base. Additionally, the Artisan acquisition further expanded the Ensign Group's range of oilfield services provided with the the addition of manufacturing and production services including production testing, wireline services and well optimization.

Growth Opportunities and Outlook

The Ensign Group's activity levels and performance depend on general industry conditions and oil and natural gas commodity prices. Based on current pricing assumptions, we are anticipating what can best be described as a challenging year for the oil and natural gas industry. The Canadian Association of Oilwell Drilling Contractors forecasts that approximately 8,400 wells will be drilled in Canada in 1999, a decrease of 14 percent from the 9,744 wells drilled during 1998. Further, activity levels for land-based drilling rigs in the United States are currently at 50 year lows.

Canadian activity levels increased in the first quarter of 1999 accommodating winter drilling programs, since access to certain areas is available for only a few months of the year. Due to the continued weakness in oil prices, it is expected that the majority of wells drilled in 1999 will be natural gas. Further improvements in utilization rates and higher margins in both Canada and the United States are expected to occur as world oil prices continue to improve; however, even as oil prices continue to recover, we anticipate that the oilfield services industry will experience a lag in recovery as oil and natural gas producers improve their financial positions.

The Ensign Group is prepared for this volatile environment. Our geographic and product diversification strengthens our ability to ride out market downturns. We have a strong balance sheet and our financial strength will enable us to take advantage of growth opportunities as they arise. For the Ensign Group, market consolidation remains a good strategy in a low pricing environment because as we grow our fixed costs are distributed over a larger base of assets.

We believe opportunities for further consolidation continue to exist in North America. In addition, we will continue to focus on the cost side of our business to make positive gains. By keeping tight control over our costs, we are able to reduce the impact of falling prices in some drilling and well servicing sectors.

Undoubtedly, our people continue to be our most important asset as their commitment and energy to provide our customers with exceptional service and innovative solutions will ensure our long-term success. As we look ahead to a challenging year, quality service and safety remain our hallmarks and enable the Ensign Group to retain its leadership position.

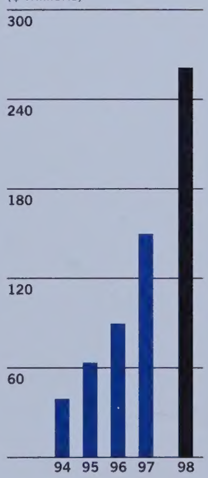
On behalf of the Board of Directors,

N. Murray Edwards
Chairman

Selby Porter
President

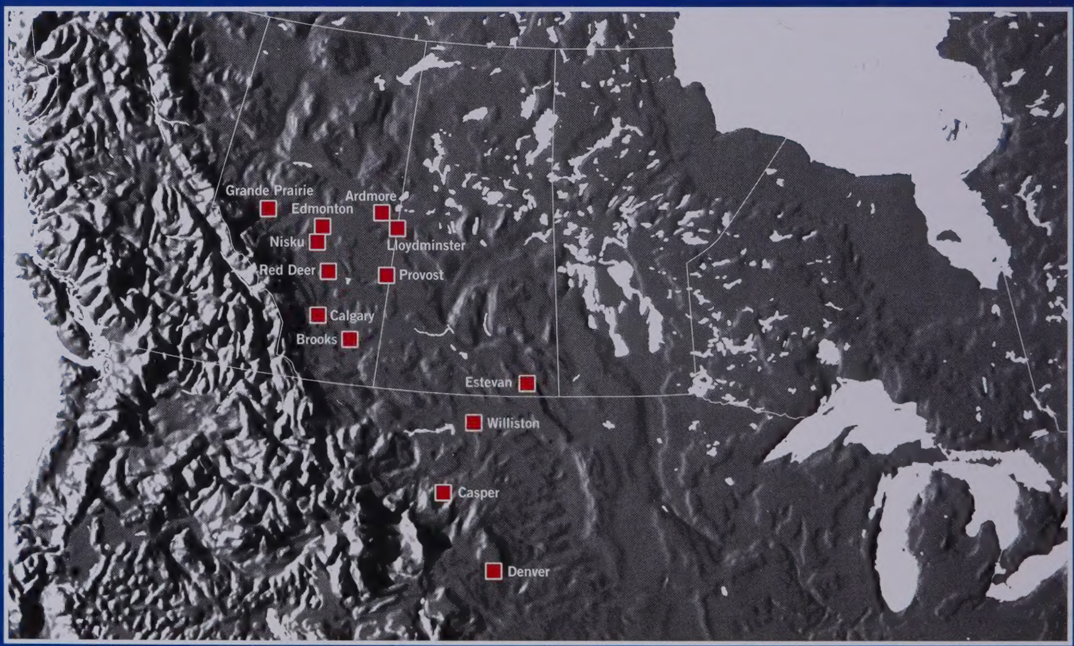
April 12, 1999

Shareholders' Equity
($ millions)



Our Energy Services

The Ensign Group is the third largest land-based drilling contractor in North America and an industry leader in providing energy services. In fact, one of our competitive advantages is the geographical diversity of our operations. The breadth of our operations allows us to focus on the specific needs of our customers and provide exceptional service within each market that we serve.



ENSIGN RESOURCE SERVICE GROUP INC.

CANADIAN
Oilfield Services

Contract Drilling
Ensign Drilling
Tri-City Drilling
Champion Drilling

Well Servicing
Rockwell Servicing
Leyen Oilwell Servicing
Continuous Tubing

Manufacturing and Production
Opsco Energy Industries

UNITED STATES
Oilfield Services

Contract Drilling
Caza Drilling

1998 Revenue *($millions)*

Canada	$322.4	77%
United States	$ 96.5	23%

Canadian Oilfield Services

The Ensign Group represents the second largest land based drilling contractor in Canada. Through our three drilling divisions, we are represented in all oil and natural gas producing areas in western Canada. Across all divisions, our employees are dedicated to meeting the needs of our customers by providing them with innovative drilling solutions.

Drilling

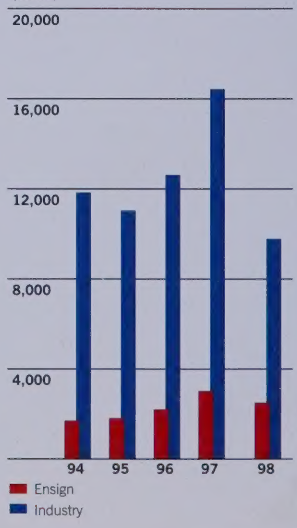
The Ensign Group's Canadian drilling rig fleet increased to 136 rigs in 1998 compared to 103 rigs in 1997 and includes 33 triples, 80 doubles and 23 singles. Our rig fleet is characterized by its quality and flexibility, where it encompasses the complete spectrum of oil and natural gas drilling depths – from approximately 500 metres (1,600 feet) to 6,000 metres (20,000 feet). Our fleet is highly mobile and our capabilities include horizontal and underbalanced drilling, slant drilling, horizontal re-entry of existing wells and other technological demands. The Ensign Group operates approximately 23 percent of the total Canadian industry fleet of 584 drilling rigs.

The Ensign Group is particularly proud of its in-house technical and engineering expertise. Our competitive advantage lies in our ability to offer our customers expertise in designing and drilling wells – the "complete package" – from planning through to execution.

Critical to our success as a drilling contractor is our ability to respond quickly to our customers' needs. Through our three Canadian drilling divisions we have 100 percent product coverage. Our rigs are situated across a broad geographic base; therefore, we are able to provide our customers with not only a rig that meets their specific requirements, but also one that is in close proximity to their operations, thereby reducing rig moving costs. We are also keenly aware that pricing and safety records are important factors when selecting a drilling contractor. The Ensign Group knows and understands market conditions and we are sensitive to product pricing. In addition, our drilling divisions have top performance records and our equipment is continually recertified to the highest industry standards.

Within a weak oil and natural gas commodity price environment, our main challenge is to maintain profitability given price pressure. To effectively manage costs, we will continue to work with our customers by creating alliances, establishing relationships and developing contracts that add value to both our customers' bottom-line and ours. Even with continuous pressure on price, the Ensign Group will not compromise on quality as indicated by our commitment to the continuous maintenance of our equipment and the education and training of our workforce to ensure a safe environment.

Wells Drilled In Canada
(Wells)



In terms of operating results during 1998, the number of wells drilled in Canada decreased 41 percent to 9,744 wells compared to 16,484 wells in 1997. Within this context, the Ensign Group's Canadian drilling divisions drilled a combined 2,492 wells in Canada in 1998, representing a total 2.8 million metres. In 1997, we drilled 3,008 wells or 3.5 million metres. Also during 1998, our Canadian drilling divisions drilled 270 horizontal wells compared to 536 in 1997. The average utilization rate for our Canadian drilling divisions was 39.8 percent in 1998 compared to 72.3 percent in 1997.

The outlook for the Ensign Group's drilling business during 1999 is directly tied to commodity prices. Current low oil prices have constrained customers' cash flow and will limit funds for drilling.

RIG DEPTH CAPABILITIES *(metres)*

Canadian	*# of rigs*	*% of fleet*
0 – 1,000	6	4
1,001 – 2,000	50	37
2,001 – 3,000	66	49
3,001 – 4,000	11	8
4,001 – 5,000	1	1
5,001+	2	1
Total	**136**	**100**

Champion Drilling

Champion Drilling joined the Ensign Group in 1998 through the merger with Artisan Corporation. Champion Drilling provided the Ensign Group with the opportunity to expand into a new geographic area – southern Alberta – where this division specializes in the drilling of shallow natural gas wells.

- *Champion Drilling has become a leader in southern Alberta through its emphasis on customer service, the mobility and efficiency of its equipment and the experience of its crews.*
- *Fleet of 25 drilling rigs.*
- *Rig utilization rate was 36 percent in 1998.*
- *Operations are based in Brooks, Alberta.*

Ensign Drilling

Ensign Drilling is an established leader in providing specialty drilling services. This division operates over 60 drilling rigs in the horizontal drilling market, including capabilities for under-balanced drilling and the horizontal re-entry of existing wells.

- *Fleet size grew to 76 rigs in 1998 compared to 73 rigs in 1997 due to the merger with Artisan.*
- *Rig utilization rate for 1998 was 41 percent compared to 72 percent in 1997.*
- *Recorded a 36 percent decrease in drilling days in 1998.*
- *Operations are based in Nisku, Alberta with field offices in Grande Prairie, Alberta and Estevan, Saskatchewan.*

Tri-City Drilling

Tri-City Drilling specializes in shallow and intermediate-depth wells and operates primarily in Northern and Central Alberta. Tri-City Drilling has been part of the Ensign Group since 1992 and this division has a long history and an established reputation in the Canadian oil and natural gas industry.

- *Operated 35 rigs in 1998 compared to 30 drilling rigs in 1997.*
- *Recorded a 41 percent utilization rate in 1998 compared to 74 percent in 1997.*
- *Number of drilling days decreased by 41 percent in 1998.*
- *Operations are based in Edmonton, Alberta.*

The Ensign Group is the third largest well servicing contractor in Canada providing shallow to deep well servicing to oil and natural gas producers throughout the Western Canadian Sedimentary Basin. Our well servicing business unit comprises two well servicing divisions and one coiled tubing division.

Well Servicing

Through our merger with Artisan Corporation our well servicing fleet grew to 115 well servicing rigs in 1998 compared to 95 rigs in 1997 and we also added 11 coiled tubing units and subsequently built two additional units. With the addition of these units, the Ensign Group offers a wider range of services and we expand on our technological capabilities.

The Ensign Group's growth in well servicing has been forged through strong customer relationships where our commitment to excellence begins and ends with our people. Through a combination of our strong, experienced team of employees and our well maintained equipment, we have become a leader in the well servicing industry. We are diligent in providing our customers with the best solutions and, in doing so, we become part of their problem-solving team. We offer services in all facets of well servicing, including completions, abandonments, production workovers and bottom-hole pump changes.

The well servicing business has historically been subject to less seasonality than the drilling business, providing the Ensign Group with less volatility. As a company, we have become more innovative in overcoming some of the challenges associated with well servicing. For example, in response to a customer's specific needs, we adapted our equipment and built a rig on a skid instead of a carrier. This solution allowed us to gain year-round access to a winter area through the use of an all terrain vehicle.

Due to an overall decline in industry activity, combined with an oversupply of well servicing equipment during 1998, our well servicing divisions experienced a 37 percent decrease in operating hours in 1998 and recorded an average 45 percent utilization rate in 1998 compared to 93 percent for 1997. In addition, due to reduced activity levels, the Ensign Group redeployed or "parked" a number of well servicing rigs based in its heavy oil regions until market conditions improve for this segment.

The Ensign Group currently holds a 14 percent market share in the well servicing industry. We believe that opportunities to increase market share through consolidation continue to exist in this highly-fragmented market.

CANADIAN RIG CLASSIFICATION – SERVICE RIGS

	# of rigs	*% of fleet*
Slant single	10	9
Skid single	1	1
Mobile single	40	35
Mobile double	4	3
Mobile single-double	38	33
Medium double	15	13
Heavy double	7	6
Total	**115**	**100**

Rockwell Servicing

Rockwell Servicing is unique in its ability to offer customers slant well servicing. This division operates a total of 10 slant well servicing rigs, the largest slant well servicing fleet in Canada.

- *Rockwell Servicing operated 64 rigs at year-end 1998 compared to 50 well servicing rigs in 1997.*
- *Operates 10 of 27 slant well servicing rigs in the Canadian market.*
- *Operating stations are located in Ardmore, Brooks, Grande Prairie and Red Deer, Alberta.*

Leyen Oilwell Servicing

Due to the considerable reduction in activity in the heavy oil market, some of the Leyen Oilwell Servicing rigs were redeployed to other areas, demonstrating the flexibility and responsiveness of this division.

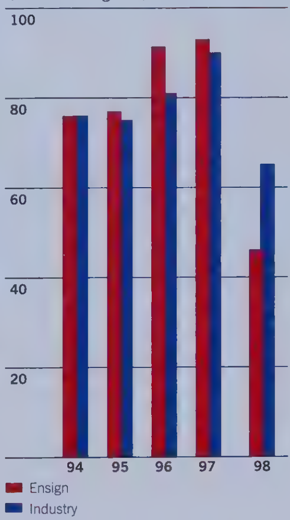
- *Operated 51 well servicing rigs in 1998 compared to 45 rigs in 1997.*
- *Well situated to take advantage of any improvements in heavy oil activity.*
- *Operations based in Lloydminster, Alberta.*

Continuous Tubing

Through the merger with Artisan, the Ensign Group expanded in a growing market area – coiled tubing services. This division benefits from, and is a continuation of, the expertise and business activities of the Ensign Group in the coiled tubing business originally commenced in a joint venture with Transocean Petroleum Technology AS. Continuous Tubing provides customers with expertise in areas such as: production optimization where we clean water and sand out of shallow gas wells to enhance production, cement squeezes, drillouts, new drills, abandonments, landing plastic or steel siphoning strings in the wellbore to optimize production, and retrieving and setting bridge plugs. While these units generally cost more to operate and maintain than conventional well servicing rigs, they are more efficient and mobile than conventional well servicing rigs and have established their superiority in particular market niches.

- *Operates 13 coiled tubing units.*
- *Primary market areas for coiled tubing units are southern Alberta in the summer and fall; extending to northern Alberta and British Columbia in the winter.*
- *Based in Brooks, Alberta.*

Utilization Rate – Ensign Group
(Well Servicing – %)



Through the merger with Artisan Corporation, the Ensign Group entered into a new, complementary oilfield service area – manufacturing and production services. Opsco Energy Industries is an oilfield service and manufacturing company specializing in the provision of wireline services, production testing, well optimization services and the custom manufacturing of oil and natural gas production equipment.

Manufacturing and Production Services

Opsco operates 24 wireline units, 26 production testing units and nine field crews operate 32 digital surface data acquisition systems units, acoustic well sounding units and dynamometer units.

Opsco's mandate is to seek out, develop and implement new technologies and services that will result in cost savings and production efficiencies for its customers. Our competitive advantage lies with the expertise of our people and the quality of our products. This business unit will increase market share by building on its reputation for quality, by continuing to develop long-term relationships with customers and establishing new relationships.

Manufacturing

Opsco's 40,000 square foot manufacturing facility is located in Calgary, Alberta. The primary emphasis of our manufacturing service is custom design and fabrication, as well as quality refurbishment of packaged facilities. Our in-house engineering expertise provides us with a competitive advantage as we are able to offer our customers site-specific products. We manufacture a wide range of oil and natural gas production equipment including separation and dehydration equipment, line heaters, production satellites and automatic pig launchers. The manufacturing area consists of fabrication, sheet metal, sand blast and paint shops.

Well Optimization

This specialty area provides technical support for all of Opsco's field services. Personnel have experience in all aspects of completions, production and reservoir analysis. Some specific services include: test design and supervision, well test analysis and basic well test courses.

Production Testing

With over 22 fully certified crews based in Calgary, Grande Prairie, Onoway and Lac La Biche, we offer a full range of services from field operations, to technical reporting and evaluation services. Opsco supplies the crews and separator and heating equipment for the testing of oil and natural gas wells. All crew members are thoroughly trained in safety and handling of hazardous materials as well as environmental protection procedures.

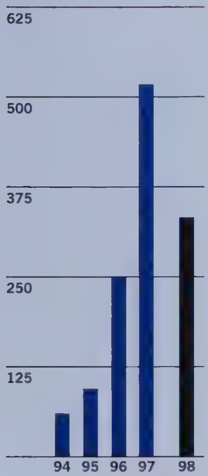
Wireline Services

Opsco offers expertise in all "slick-line" and "braided-line" completion services. Opsco's wireline stations are located in Red Deer, Sedgewick, Grande Prairie, Whitecourt, Edson and Fox Creek, Alberta; Moose Mountain, Saskatchewan; and Fort St. John, British Columbia. We have 24 wireline units that install and retrieve downhole instrumentation and operate mechanical downhole tools.

United States Oilfield Services

The Rocky Mountain region of the United States is comprised of the states of Arizona, Colorado, Idaho, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Utah and Wyoming. This area contains a number of different oil and natural gas producing basins; however, with the exception of North Dakota and central Wyoming, the balance of this vast region is prone to natural gas production. The Rocky Mountain region is believed to have good long-term potential for continued growth.

Wells Drilled In United States – Caza Drilling
(Wells)



Recent changes to the United States Rocky Mountain pipeline system have enabled natural gas previously trapped in the region to be delivered to consuming regions in the mid-west and northeastern regions of the United States. Consequently, producers in the region have experienced a narrowing of price differentials relative to the benchmark Henry Hub price for natural gas. This has had a significant impact on stabilizing the economics associated with natural gas production in the Rocky Mountain region and has resulted in increased drilling activity levels in 1997 and much of 1998. An unexpectedly mild 1998/1999 winter season has resulted in lower natural gas commodity prices as a result of higher than expected natural gas storage levels. Lower natural gas prices have reduced current drilling activity levels in the Rocky Mountain region; a full recovery is not expected until the natural gas storage situation normalizes and margins recover.

Drilling

Caza Drilling

There are approximately 27 drilling contractors operating a total of 186 drilling rigs serving various oil and natural gas basins within the Rocky Mountain region. Caza Drilling Inc., with 32 marketed drilling rigs, is the second largest contractor and serves all producing areas of the region.

The Rocky Mountain Region is primarily characterized by natural gas and most of the geological formations in this area are not conducive to horizontal drilling. In comparison to Canada where industry activity peaks in the first quarter, in the Rocky Mountain Region, activity continually builds during the year, where the fourth quarter is typically the most active. Weather conditions, restrictions on drilling due to environmental and wildlife concerns, and the cost of drilling during the winter in this region dictate the seasonality of drilling activity levels.

Despite declining industry activity during the year, Caza Drilling was a strong contributor to the Ensign Group's bottom-line in 1998. This division, which has now been a part of the Ensign Group since 1994, continues to improve its operational capability and safety record, and market recognition for Caza Drilling continues to grow in the United States.

- *Caza Drilling comprises a fleet of 46 rigs of which 32 are actively marketed.*
- *Drilled 332 wells in 1998, including 12 horizontal wells, compared to 517 wells in 1997.*
- *Drilled 2.8 million feet (0.9 million metres) in 1998 compared to 4.1 million feet (1.2 million metres) in 1997.*
- *Recorded a 38 percent utilization rate in 1998 (1997 – 52 percent).*
- *Superior technical knowledge of the Rocky Mountain Region enables Caza to perform projects on a well "footage" or "turnkey" basis rather than "day work".*
- *Headquartered in Denver, Colorado and operates in seven states.*

RIG DEPTH CAPABILITIES *(metres)*

United States	*# of rigs*	*% of fleet*
2,001 – 3,000	31	67
3,001 – 4,000	9	20
4,001 – 5,000	6	13
Total	**46**	**100**

The Ensign Group's team of employees continue to be our most valuable asset. Their commitment and energy to deliver superior service and results is the foundation of our organization.

Ensign Resource Service Group: Our Employees

- Ensign Drilling
- Tri-City Drilling
- Champion Drilling
- Caza Drilling Inc.
- Rockwell Servicing
- Leyen Oilwell Servicing
- Continuous Tubing
- Opsco Energy Industries

DARRYL WEST
DALE VIVIAN
DANIEL SHIHINSKI
BILL PHILLIPS
TRAVIS THACKER
DARIN RAMSELL
IAN MOSSOP
IAN PARSONS
MATT SCHMITZ
DANIELLE CONNELL
DAVE GENT
SINDI SCHORNAGEL
ED MCCORMICK
NORMAN REID
KEN SMILEY
BRIAN ARNESON
TOM MEDVEDIC
CARL NELSON
BARB COHEN
GLEN DEMBICKI
RANDY BREWER
JODY SCHULER
LINDA LEKIC
FRANK AMOS
TOM CYR
JAMES MCCATHRON
CAMERON BALL
RENE GARTON
ED TAYLOR
BUZZ BRADLEY
GRANT YESKE
MARVIN GIDEON
MARSH LAZARENKO
LEON BEAUDOIN
SUE GRIFFITH
ALEX ADAMS
BONNIE ABEL
ROBERT MARTIN
WAYNE HARWOOD
JIM BUNKER
DONNA CONLEY
PERRY JUNDT
FRANK STODDART
GLEN GALGER
LORNE LEVSEN
KEVIN RUDELL
JACQUELINE WALD
BOB ZANUSSO
JODY TREMBECKI
TIMOTHY NICHOLSON
KAREN ALLARIE
GEORGE CHAKMAKIAN
SHELLY UNDERSHUTE
KEN COUGHLIN
MARCEL YURCHAK
BRIAN BARON
DENNIS JUSKA

HERB MCALEENAN
GERI TETREAU
VERN MCKINNON
SCOTT MARSHALL
LINDA BROOKER
DARRYLL JOHNSTONE
DEBBIE HALE
RICHARD VANDEBON
ALLAN KULCZYCKI
KEVIN SLOAN
GRANT CLEARWATER
SHAWN AIRTH
LEW GENTRY
KELLY NICHOLSON
TODD WEISS
WAYNE KIPP
KEVIN CHESAL
ED KREMERS
PHIL CHANEY
EDWARD KAUTZ
JAMES STEVENSON
DARCY HEMSING
DALE FRASER
RON MEYER
LES MOORE
LARRY RYAN
RICHARD SIMONTON
DAVE MEGYES
PATRICIA DE PAOLI
TRUDY SPOHR
HUGH GIBERSON
DENIS CARRIERE
JOYCE MCLACHLAN
CAROLYN FREEMAN
RICHARD KLYNE
COREY WINKLER
GENE GAZ
DAVID JACKSON
JIM VERCAMMEN
BARRY SCHULTZ
MARY DUNMIRE
JOHN ALTWASSER
KEVIN MACDONALD
KEVIN STROMBERG
DAVE HONCH
DAVE PIETRZYKOWSKI
CHARLOTTE KANAVICH
DIANE BOSCH
GARY SHORT
JOHN SIDOR
ROD ORANGE
PAMELA MILLISON
BRIAN STEEVES
NEAL GEYSEN
MARTIN TIMMONS
JOE TUCKER
ARNOLD KESSEL

HOWARD KARSIUK
DAVID SURRIDGE
BRUCE EHKLE
DON BENOIT
KEITH ARMSTRONG
ED WYLIE
MICHELLE BOND
CONNIE WOODS
TOM FELLOWS
ROBERT HUNT
GARNET GOWER
GEORGE CALDWELL
TROY EHRLER
RORY HALE
ALEX LABASCHUK
JOHN CHARLTON
GORD METZNER
DARRYL MASER
JAN BADIN
WILLIAM FRIZZELL
DARRREN TOBLER
DON HACHEY
RON MORIE
JOHN CSURKA
CLAY BRADLEY
WAYNE OLSON
BYRON JUPE
BOBBI BEAUCHAMP
VERN VELDKAMP
GERRY STONE
TRENT TORNQUIST
JUDY SELBY
SAM SAVAGE
TERRY HENDERSON
JENNIFER GARNER
KIRK SCHROTER
JAMES BROOKS
DAREN IZZARD
STEVE HAUGLAND
LEE EDWARDS
JULIA HAWES
GERALD LASANTE
ROBERT CARDINAL
TARA WRIGHT
JASON CHRISTMANN
ROY KLEMOLA
MARGUERITE GINN
PETER MCKELVIE
PAT THORSON
EUGENE EDELMANN
KEN SYLVEN
KAREN KEENE
PAUL FITTON
MICHAEL EWASCHUK
DAVE FYHN
CAROL KWONG
CONLIE WILK

EMIL WARK
PETER ENS
JOHN CALBERRY
WAYNE TOTH
MICHAEL NUSS
MARTIN STOROS
JAMES RYAN
PAUL MALCOLM
JOAN DUNLOP
ALLAN TAYLOR
JOHN BONELL
RUSSELL MESSER
KELLY SCHWARTZ
EDWIN BLONDIN
BARRY FEDIUK
HARVEY DANYLUK
JOHN SCHRINER
REJ GIRARD
MARVIN CLIFTON
ALISON PRINCE
JASON POLLOM
DOUG PETERSON
IAN CRAIG
BRETT TAYLOR
RICK LEA
KEITH DOREY
WALTER HOPF
DERRICK SPARKS
BRYAN TOTH
LAURIE MCMANN
SHERRY HUMPHREY
JOHN BOUREE
CINDY HAMES
ERRICK WARREN
BARRY STEVENS
RICHARD MACPHERSON
DANNY GAMBOA
JEAN JACQUES TESSIER
RANDY MUTCH
HUGH FLETT
AMY TAGUS
ARNET PACHAL
GLEN STETTLER
WAYNE FRANKE
CRAIG BARKER
PERI KIMBER
MICHELLE FALLA
BRIAN AMAN
DON WAGNER
CRAIG BENSON
ALLEN INGRAM
MIKE MILLINGTON
RODNEY WIRTH
GERALD GRONEN
JOE BRLEKOVICH
DARWIN DEAN
KEVIN CURTIS

HANS JANDL
BOYD DOLL
DENNIS ENNS
DANIEL HOCHACHKA
LYNDON IRVING
BOB JACOBSON
ANDY WILLIAMS
LEANDER DURAND
AARON MILLS
MILES KOSTERIVA
RICK GOSSE
DARCY HILDENBRAND
CHARLES JUURLINK
KEITH MATTSON
DAWN STRAZZA
DUAINE MURPHY
TERRY STARK
DOUG HARTFIELD
GEOFF TYWONIUK
TRACY PALMER
SELBY PORTER
MELVIN BULLINGER
LENORE SUMMERS
HARRY SHAW
BRIAN MOHR
DAVE BOVEN
BETH MACEACHERN
BARRY PRYCE
KARL WHITE
DAVID GJOVIG
ROBERT RODIN
HELMUT STUBENVOLL
BOB GOW
MIKE HAMILTON
GREG TOPP
JEFF SALEN
WADE AUGOT
BRADLEY TAYLOR
ROBERT JENSEN
JOHN BLAKE
JIM JENKINS
LOUISE LA RUE
LEONARD SPRING
BILL OMAN
GARNET CUDDINGTON
MARK NAGURA
TED NELSON
BARTON ELCHUK
MARTY HENNEL
DANIEL JAMES
LEN CHRISTIAN
KIM GETZ
ALVIN PYLE
DANIEL WELSCHMEYER
DAVE GREEN
LAURIER CARRIERE
BRIAN TOBLER
RICH WELEVER
WILLIAM WARD
JOHN STRATICHUK
DAVID ROY
AL GRAY
LYLE KORNKVEN
DENISE TAYLOR
ANDREW PARE
SCOTT PARISH
MIKE NOADE
FRED STEWARD
TODD FRITZ
DWAYNE SWAN
WESLEY ALLEN
BEN ARBOGAST
BRUCE TAYLOR
GREG RUDOLPH
LARRY GATES
ALVIN KEBEL
LEON PURVIS
JIM BECKLEY
ROBERT GEDDES
DANIEL KLOTZ
GLEN STEWART
BARBARA HANSEN
LYLE WHITMARSH
MATT HARDING
DAVID PILIPCHUK
RALPH COCK
ROCK RASMUSSEN
THOMAS MCDONALD
NORM REGEHR
NICHOLAS MALANSKY
WAYNE LAWSON
RONALD HENDERSON
TOM O'NEILL
LORNE OJA
TOM MONROE
RANDY MIDDAGH
R.J. TOTH
GERALD ARMSTRONG
JOHN ARNESON
DIANNA GUTIERREZ
EDWIN MATTIE
WARREN MCCUTCHAN
DAVID DEVINS
MARLENE NICOLAS
ROSE KODY
HOWARD CHADWICK
MANFRED BEHNKE
GABRIELA LIBERTY
BILL FRENCH
MARK KORDUS
DEREK MCCLELLAND
PAUL ILLERBRUN
ROGER PIKE
JOHN HILDEBRAND
RON PETTAPIECE
GLENN DAGENAIS
DOUGLAS ZIMMER
DALE DOERING
DARCY DENIS
TANIA CIPRIANI
TROY PRIOR
TERYL AIDE
DON DRUL
JOY KOWACH
BOB HENLEY
LEN MINOR
RANDY KENNEDY
DENNIS HANSEN
BERNICE DUNHAM
JOHN CUSANELLI
SCOTT MINK
PHIL MOORE
LORNE SOMERS
COLLEEN KJOBERG
PETER COOPER
KEITH DELANEY
BLAKE PROSAVICH
TRAVIS AYLESWORTH
TRAVIS HAGGLUND
BOB DEAR
GORD RIGUIDEL
MARIE KOSHELKA
MARLYCE SPRINGER
EVANNE ROWLAND
CHARLENE LINFORD
JOAN PEARCE
WAYDE BARKER
LOUIS HENLEY
HENRY KESSEL
BRANDON MYKYTIW
JEAN BEAUDOIN
HELEN CARDON
DAVID HEMSING
LYLE WOOD
JIM MCMANIGAL
GEORGE IRVIN
GREG PAGE
DEAN MCNALLY
CHARLEY BREWER
KIRBY PROSAVICH
EVONNE LAJEUNESSE
KEN SNIDER
BERNIE NEDELEC
ROBERT WILMAN
ARNOLD WOLLMANN
CHARLES STORLE
BARREN GRAHAM
ROBERT HAWKES
RON RUSTAD
LYNETTE WELS
WILLIE PUSKAS
LADONNA JOHNSON
GUY GAUDREAULT
GARY GLOCKNER
JAMES CAMPBELL
PETER DEGENHARDT
GERARD DIRK
CORBIN JACKSON
LEESA SMART
JEFF HALLWACHS
EARLE ROUTLY
JOHN LARKIN
DAVID CARRIERE
DAN ROBINSON
KEVIN PARASIUK
JEFFERY KAISER
AMOS VOLK
BEN KING
CURT CHILDERS
MIKE MATSON
BILL LEWIS
WADE BENSON
VICTOR LENTZ
CHRIS MIELNIK
TERRY MCAMMOND
PERRY JOYNT
DARREN JOHNSON
ALFRED SCHICK
ART BRUNET
ROXANNE HARTWICK
CHRISTINE KALIVODA
TED WALDNER
T.J. BARBER
DOUG MILLER
JOHN KOCH
PAUL MEADE-CLIFT
JULIE BEGGS
WAYNE ZANDEE
GENIE STUPKA
KAREN HYDE
GERALD BEAUPRE
FERNAND DESCHAMBAULT
LORRAINE SETLA
SUE DOLL
DOUGLAS LANE
YVONNE COVEY
LEO ROLLER
ROBERT GALLANT
RICK VANEE
LYLE AUBIN
DARRELL ROBERTSON
RHONDA LITZENBERGER
HANK VAN DRUNEN
EVERETTE WADDY
TERRY PATERSON
MELVIN CURTIS
RODGER FIELD
GREG HOFFINGER
RENE PULKINEN
LARRY LORENZ
VERN MACHUIK
DALE LEITNER
JODY KEEN
RICHARD MANN
ALLAN BENNETT
BARRY WHITTEN
ALEX RACINE
ROBERT AFFLECK
MARIE FISHER
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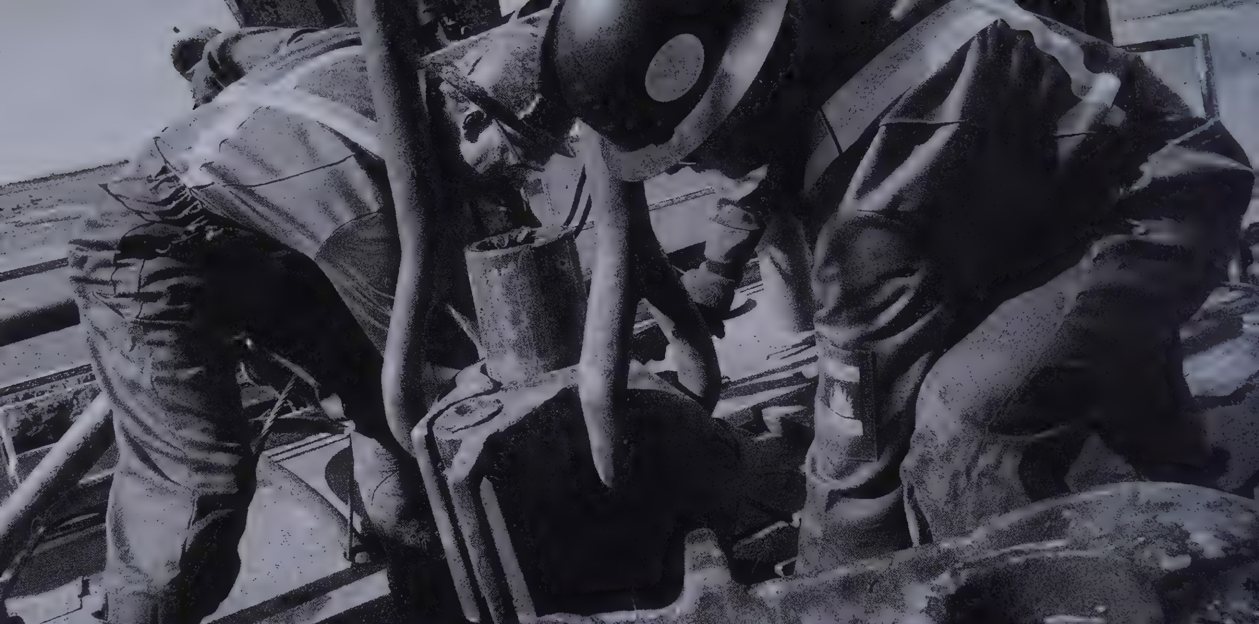
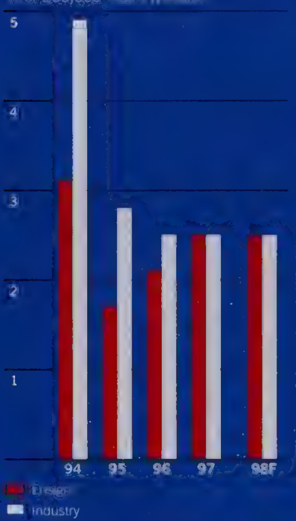
SANDY EASTIN
SCOTT CLAUSSEN
JEFF BRANT
DAVE HARDING
ANDY SMITH
RONALD HAIMILA
DARREN LUTZ
DON TEDEROFF
GRANT PARR
JIM BUCEK
ASHRAF RAJABALI
COLIN STALLKNECHT
JAMES THUL
DANA JONES
WALTER PERRIN
JAMES BARCLAY
WAYNE HREHORETS
ROBERT JANZEN
MIKE ERIKSON
LARRY VILLAVERDE
DAVID FENERTY
JIM TOMLINSON
TANYA BOYCE
AMBROSE GROSS
RUSSEL LADOUCER
BRAD BECKLEY
THOMAS SCHLEDWITZ
DON HANDELAND
DEAN ULMER
SANDRA BOCANEGRA
RUSTY MINGO
LANCE PATTERSON
NANCY KNOUREK
CURTIS DENTY
ROGER SNIDER
MIKE PRZYSIEZNY
RICK DOLL
RONALD VERES
AND MANY OTHERS



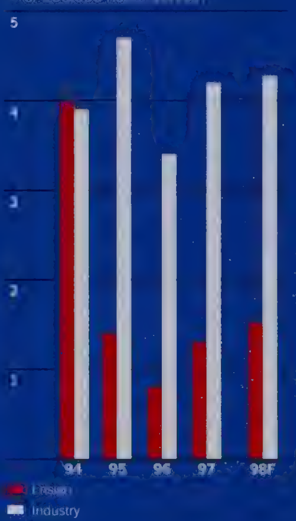
Safety and the Environment

A key corporate objective at the Ensign Group is to ensure that our directors, officers and employees understand that safety is a value within our organization, and that this value must be embraced at every level. The officers of the Company, through to the managers and employees, are evaluated on safety performance and activities and are expected to proactively engage in safe operations.

Lost-Time Accident Frequency – Drilling
(Per 200,000 hours worked)



Lost-Time Accident Frequency – Well Servicing
(Per 200,000 hours worked)



Safety Commitment

Integral to our operations is a firm commitment to the health, safety and well-being of our employees, customers and the public at large. In each of the past eight years, the Ensign Group has proactively performed an internal audit of its health and safety processes to ensure that the Company is continuously striving to implement the highest standards and practices.

Safety

The ongoing training and development of the Company's employees is a priority for the Ensign Group. Demonstrating our commitment to this objective, the Ensign Group employs eight safety personnel dedicated to ensuring that the Company's health, safety and environmental standards are continuously reviewed and followed.

Impact 2000, a comprehensive audit, evaluates organizational safety management systems in six areas: corporate leadership, operations, human resources, facilities and services, administration, and health and safety information and promotions.

Based on the results of these yearly audits, the Ensign Group continues to refine and define its safety and training procedures which the Company has standardized across all divisions. Training programs which have been developed internally focus on Company-specific policies and procedures. These programs ensure that all employees have the skills, training and information required for their specific position – from the new employee through to the rig manager, who is primarily responsible for the health and safety at their sites. Every rig manager within each division holds daily, weekly and monthly meetings to ensure open communication regarding safety and environmental issues.

Our safety personnel meet as a group on a quarterly basis to identify best practices and in turn implement the best standards. This group takes a proactive approach to safety by regularly visiting the field, providing training, safety inspections, checks and drills at rig sites and constantly ensuring that the Company's equipment is continually upgraded and recertified. The Ensign Group also holds annual rig manager and driller conferences to further develop the management skills of rig managers and senior drillers.

Due to our broad geographic base of operations, the Ensign Group must also ensure that it employs consistent safety standards across all divisions. Because safety and environmental regulations often vary from jurisdiction to jurisdiction, the Ensign Group always works towards to the highest standard to ensure that its equipment meets applicable regulatory and safety requirements.

Environment

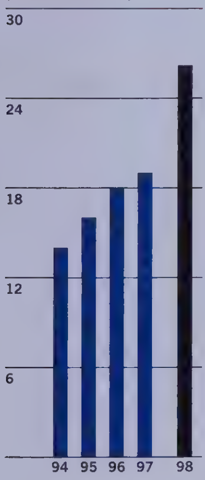
Alongside the Ensign Group's commitment to safety is our rigorous adherence to environmental standards. Similar to our safety standards, the Ensign Group has developed environmental policies and procedures which we have implemented across all operating divisions. In particular, the Ensign Group is committed to reducing, reusing, recycling and reclaiming materials resulting from the waste generated by its operations. All drilling and well servicing managers have completed waste and environmental management training and all rig crews are trained in H_2S (hydrogen sulfide) and the transportation of dangerous goods. All rig sites also post the Ensign Group's environmental standards for oilfield waste management in order to maintain a high level of awareness among rig crews.

Management's Discussion and Analysis

Management's discussion and analysis provides further insight into the Consolidated Financial Statements of the Ensign Group and also addresses issues associated with known risks and uncertainties relating to the oilfield service industry. This discussion should be read in conjunction with material provided in other sections of the Annual Report in order to obtain a complete perspective on the Company and its operating environment. The scope of this section does not include comments regarding the general economic or political environment which could have a bearing on the Company's operations.

The Ensign Group achieved solid financial results in fiscal 1998 in spite of a challenging operating environment throughout much of the year. The Company recorded revenues of $418.9 million in 1998, a 19 percent decrease from the record level of $517.5 million recorded in 1997.

Market Share Canada
(Wells Drilled – %)



Net income decreased 28 percent to $48.8 million ($2.16 per share) for fiscal 1998 from $68.0 million ($3.30 per share) for fiscal 1997. Cash flow also decreased to $73.1 million ($3.24 per share) for 1998 from $96.7 million ($4.69 per share) for the preceding year.

Low crude oil prices prevailed throughout the year resulting in significantly lower oil and natural gas exploration and development activity levels throughout North America. In this environment, the Company continued to focus on customer service and cost control. These factors, combined with a record first quarter, enabled the Ensign Group to record its second most successful year in terms of income and cash flow levels. The year was highlighted by the completion of the single largest transaction in the history of the Ensign Group. The acquisition by way of a merger with Artisan Corporation in May 1998, contributed significantly to the Company's well-established Canadian drilling and well servicing rig fleet and added some new services to the Ensign Group's portfolio of services available to its oil and natural gas customers.

Revenues

Consolidated revenue for fiscal 1998 decreased to $418.9 million from $517.5 million recorded in 1997. This 19 percent decrease is directly attributable to lower drilling and well servicing activity in the Western Canadian Sedimentary Basin and the Rocky Mountain Region of the United States. Reduced crude oil prices had a significant impact on the cash flows of oil and natural gas companies, the Company's customers. Reduced cash flows resulted in reduced capital expenditure levels relative to prior years and, thereby, reduced levels of oilfield service activity. A good indicator of North American activity for the oil and natural gas service industry is the Canadian well count. The number of wells drilled in Canada in 1998 was 9,744, a decrease of 41 percent from the record 16,484 wells drilled in 1997. The impact of the lower activity levels was somewhat offset by the growth of the Ensign Group as a result of the acquisition of Artisan Corporation in May 1998.

Canadian Oilfield Services

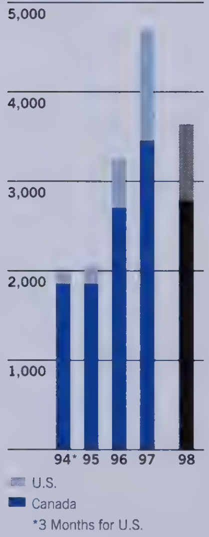
The acquisition of Artisan Corporation expanded the Ensign Group's Canadian oilfield services operations during 1998. A total of 33 drilling rigs, 19 well servicing rigs, 11 coiled tubing units and additional oilfield services, not previously provided by the Company until the Artisan acquisition, were added in May 1998. The Ensign Group's expanded Canadian oilfield services, and subsequent increase in market share, partially offset lower activity levels in the Western Canadian Sedimentary Basin throughout the last three quarters of 1998.

The Company's Canadian drilling rig fleet totaled 136 drilling rigs at December 31, 1998, compared to 103 drilling rigs at December 31, 1997. The Ensign Group's Canadian drilling divisions, Champion Drilling, Ensign Drilling and Tri-City Drilling, combine to form the second largest drilling rig fleet in Canada, approximately 23 percent of the total Canadian drilling rig fleet. The Company's Canadian operations recorded 18,176 drilling days in 1998, a 27 percent decrease from the 25,057 drilling days in 1997, a record year for drilling activity in the Canadian oil and natural gas industry. Lower activity levels also had a negative impact on day rates during 1998 as an oversupply of drilling rigs in the Canadian market resulted in intense competition for market share.

The Opsco Energy Services division obtained by the Ensign Group as part of the May 1998 acquisition of Artisan Corporation offers the Company a degree of diversification within the Canadian oilfield service sector through its manufacturing, mechanical wireline and production testing operations. The addition of Opsco to the Ensign Group expands the Company's range of oilfield services offered to the natural gas industry.

Also included in Canadian revenues for 1998 are dividends of approximately $4.2 million arising out of the Company's investment in Western Rock Bit Company Limited. The dividend received from Western Rock Bit in 1997 amounted to $540,000. The large increase can be attributed to the sale by Western Rock Bit of the majority of its assets with the proceeds being distributed to the shareholders.

Metres Drilled – Ensign Group
(thousands of metres)



The combined impact of these factors resulted in reduced total revenues from the Ensign Group's Canadian drilling operations in fiscal 1998 compared to the prior year, in spite of an increase in the size of the Company's drilling rig fleet during the year.

The Ensign Group's Canadian well servicing divisions, Continuous Tubing, Leyen Oilwell Servicing and Rockwell Servicing, also experienced lower rates of utilization in 1998 compared to the prior year. During 1998 the well servicing divisions recorded 144,078 operating hours, a 37 percent decrease over the 228,835 operating hours recorded in the previous year. The lower levels of utilization were partially offset by the addition of 20 well servicing rigs and 13 coiled tubing units to the well servicing fleet during 1998. At December 31, 1998 the Ensign Group's well servicing fleet was comprised of 115 well servicing rigs and 13 coiled tubing units. This compares favorably to a well servicing fleet of 95 rigs at December 31, 1997. Revenue levels for fiscal 1998 were also negatively affected as the Company was forced to match well servicing rate reductions made by its competitors as many of the private well servicing contractors dropped prices in an effort to improve market share in an over-supplied market environment.

The Ensign Group's Canadian oilfield services segment provided the Company with total revenue of $322.4 million for fiscal 1998, a decrease of 19 percent from revenue of $397.5 million for fiscal 1997.

United States Oilfield Services

Caza Drilling Inc., the Ensign Group's United States-based drilling division, also experienced lower activity levels in 1998 as a consequence of reduced spending by oil and natural gas companies arising from reduced commodity prices. As Caza's operations are focused in the Rocky Mountain region of the United States, primarily a natural gas producing region, the negative impact of low crude oil prices on activity levels, and consequently revenue rates, was not as pronounced as the impact on drilling activity and pricing levels in Canada. The rig fleet remained consistent during the year with 46 (32 marketed) drillings rigs at December 31, 1998 and 1997. Total revenue from the Ensign Group's United States Oilfield Services segment for the year ended December 31, 1998 decreased 20 percent to $96.5 million, compared to revenue of $120.0 million generated by this business segment in the previous year.

Operating Expenses

Operating expenses for the year ended December 31, 1998 totaled $290.9 million, a decrease of 19 percent over operating expenses of $359.3 million for fiscal 1997. Operating expenses as a percentage of revenue were consistent at 69 percent for both 1998 and 1997. The Company was able to maintain gross margins in an environment of lower revenue rates by continuing to focus on cost-effectiveness. Operating expenses were also lowered through the achievement of "economies of scale" resulting from the continued growth of the Ensign Group. The Company continues to maintain its equipment to the highest industry standards, but ensures that maintenance expenditures are restricted to operating equipment. This strategy is prudent in a low commodity price environment and ensures that funds are not spent on equipment with a low likelihood of utilization in the short term. It also remains a key strategy of the Ensign Group to keep rig packages complete and not to cannibalize equipment during periods of low activity. This strategy strengthens the Company's position and enables it to take advantage of recoveries in activity levels.

General and Administrative

General and administrative expenses decreased six percent during 1998 to $18.0 million from the $19.2 million recorded in 1997. The Company moved very quickly to integrate the operations of Artisan into the Ensign Group upon the completion of the acquisition. Two office and yard facilities were sold and the aggregate staffing levels were reduced, primarily through attrition. The levels of bonus payments to employees and managers of the Ensign Group were also substantially reduced in 1998 as a direct result of the reduction in activity levels experienced in 1998 compared to 1997. As a percentage of revenue, general and administrative expense remained consistent at four percent for both 1998 and 1997. The Ensign Group is diligent in its efforts to maintain a low fixed cost structure and compares favorably with its peers in the industry. The Company believes that a cyclical industry demands low fixed costs in order to ensure long-term profitability and viability.

Depreciation and Amortization

Depreciation and amortization expense increased 64 percent to $20.5 million for fiscal 1998 from $12.5 million for 1997. Of the $8.0 million increase, approximately $6.0 million is directly attributed to the acquisition of Artisan Corporation. The additional $2.0 million in depreciation is a result of taking a full year's depreciation on the approximately $50.4 million of fixed asset additions made throughout 1997.

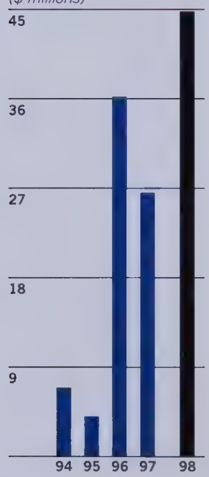
Interest Expense

Total interest expense for 1998 was $4.1 million, a 32 percent increase compared to total interest expense of $3.1 million for 1997. Long-term interest increased 94 percent to $3.5 million for 1998 from $1.8 million for 1997 as a direct result of the additional long-term debt arising from the acquisition of Artisan Corporation in May 1998. The Company required additional term debt of approximately $35.0 million to finance the cash portion of the acquisition of Artisan and assumed Artisan's term debt of approximately $14.5 million. The Artisan term debt of approximately $14.5 million was subsequently repaid in full by December 1998. Operating debt interest of $0.5 million in 1998 was 62 percent lower compared to $1.3 million in 1997 due to less borrowing requirements resulting from a strong financial position and lower activity levels for the year.

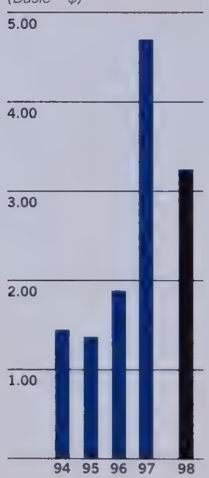
Income Taxes

Income taxes decreased 34 percent to $36.6 million in 1998 from $55.4 million in 1997. The decrease is consistent with the decrease in net income for 1998 compared to 1997. The Company's effective tax rate is 43 percent, down slightly from the 45 percent rate for 1998. The decrease in the effective rate is primarily due to the non-taxable dividends received from Western Rock Bit during 1998 and the fact that the Company's United States operations accounted for a larger percentage of the Company's income for 1998 compared to the prior year.

Long-Term Debt, Net of Current Portion
($ millions)



Cash Flow Per Share
(Basic – $)



The United States has lower effective tax rates compared to Canada resulting in a lower tax burden to the Company. These reductions were offset by the impact on the Company of an industry settlement with Revenue Canada regarding the non-deductibility of certain subsistence allowances paid to field employees. This issue has been addressed through changes in legislation made by the Department of Finance effective February 1998. The effective tax rate was also increased by the non-deductible component of depreciation and amortization primarily resulting from the acquisition of Artisan Corporation. The reduction in the deferred tax expense is attributed to the inclusion of income from the well servicing operations which had previously been deferred in 1997 and which was not offset by similar earnings levels in 1998.

Dividends

The Ensign Group declared and paid Common Share dividends totaling $10.0 million ($0.45 per share) during 1998. Dividends paid in 1997 totaled $4.9 million ($0.24 per share). The dividends paid by the Company were pursuant to the dividend policy previously adopted by the Board of Directors. In March 1999, the Ensign Group changed its dividend policy from semi-annual to quarterly payments and announced the payment of dividends totaling $2.7 million ($0.1125 per share) on March 31, 1999. The dividends paid by the Company are determined based on the current level of profitability and are subject to the ongoing financial needs of the Ensign Group.

Financial Condition and Liquidity

Working Capital and Funds Provided by Operations

At December 31, 1998, the Ensign Group had positive working capital of $43.6 million compared to $29.2 million for the previous year. The 1998 working capital position includes $19.2 million in cash and $16.4 million for the current portion of long-term debt. The improvement in the working capital position is a result of the continued profitability of the Company. Lower activity levels in 1998 and a continued focus on cost control has led to a reduction in net capital expenditures in 1998 to a net disposal of $2.2 million ($138.0 million net capital additions including the Artisan acquisition) compared to a net expenditure of $50.4 million in 1997. The low level of capital expenditures indicates that the Ensign Group has minimal maintenance capital expenditure requirements on an ongoing basis.

Cash flow from operations for fiscal 1998 was $73.1 million ($3.24 per share), a 24 percent decrease from the record $96.7 million ($4.69 per share) achieved in 1997. Lower activity levels and revenue rates were directly responsible for the decrease.

Acquisitions

In May 1998 the Ensign Group completed the largest acquisition in its history with the purchase of Artisan Corporation. The total purchase price for Artisan was $140.3 million (including the assumption of an additional $14.5 million in term debt). This acquisition added 33 drilling rigs, 19 service rigs, 11 coiled tubing units, 24 mechanical wireline units, 26 production testing units and manufacturing capabilities to the Company's Canadian operations. The acquisition provides a broader geographic base of operations for the Ensign Group as well as a more diversified range of services to the Company's customer base.

Financing

At December 31, 1998, the Company utilized $1.2 million of its operating facility from an available $46.0 million. This is substantially below the $11.5 million utilized at December 31, 1997. This reduction is due to lower operating requirements resulting from reduced activity levels during the latter part of 1998.

Long-term debt, including the current portion, at December 31, 1998 was $61.2 million representing a 66 percent increase over the $36.9 million term debt held at December 31, 1997. An additional $35.0 million in term debt was required to complete the Artisan acquisition in May 1998. This additional term debt was offset by the scheduled repayment of $10.0 million in long-term debt in April 1998. All debt covenants and scheduled repayments have been fulfilled by the Company. The long-term debt to equity ratio is consistent with the prior year at a very conservative 0.2:1. These modest debt levels provide the Ensign Group with the financial flexibility to pursue further growth opportunities in the future.

In May 1998, the Ensign Group issued approximately 2.6 million Common Shares at an attributed price of $27.50 per Common Share as partial consideration in the acquisition of all of the issued and outstanding shares of Artisan Corporation. This component of the transaction added approximately $72.7 million to the share capital of the Company.

The Ensign Group filed a Notice of Intention to make a Normal Course Issuer Bid (the "Bid") with the Toronto Stock Exchange in September 1998. Management was of the belief that the market price for the Company's Common Shares may not reflect the underlying value of the Common Shares. The Bid took effect on October 1, 1998 and in October 1998 the Company purchased 35,000 Common Shares at an average price of $12.64 per share pursuant to the Bid. A further 10,000 Common Shares were purchased in February 1999 at an average price of $12.25 per share. All Common Shares purchased by the Company were subsequently cancelled in accordance with the terms of the Bid.

Risks and Uncertainties

The Ensign Group derives it revenue from the provision of oilfield services to oil and natural gas exploration and production companies in North America. Demand for the Ensign Group's services is directly related to the operational and financial strength of the Company's customers as evidenced by their capital expenditure programs. The exploration and development budgets of the Ensign Group's customers are directly affected by fluctuating oil and natural gas prices. Lower commodity prices have a direct impact on the production cash flow of the Company's customers, which in turn impacts the demand for the Company's services. The ability to forecast the price of crude oil or natural gas is extremely difficult. Many global factors beyond the control of the Ensign Group and its customers impact commodity prices and, therefore, represent a major area of uncertainty for the Company.

Another significant risk factor in the current economic environment is the ability of the Company's customers to pay for services rendered. Lower crude oil prices relative to the prior year have negatively impacted the financial positions of most oil and natural gas companies. The Ensign Group has been very proactive in its approach to credit management and has devoted significant resources to the implementation of policies and procedures designed to maintain credit risk at an acceptable level.

The Ensign Group faces other uncertainties in conducting its day-to-day operations. The Company operates within an industry that is subject to legislation governing environmental and safety matters, and to unpredictable and uncontrollable weather patterns which affect the ability of the Company to provide contracted services in remote locations. Other factors which pose uncertainty to the Company are exposure to exchange rate fluctuations between Canadian and United States currencies and fluctuations in interest rates. The Company continually monitors all areas of risk to ensure that its exposure falls within acceptable parameters determined by management.

The Ensign Group carries adequate levels of insurance to protect the Company in the unlikely event of the destruction or damage to its equipment. Public liability insurance is also maintained at prudent levels to limit risk of exposure in the event of unforeseen events. A comprehensive review of insurance coverage is completed periodically to ensure that risk of loss is kept within acceptable levels.

Year 2000

The end of the millennium has exposed virtually every business organization to the possibility of a disruption in its operations through the potential failure of computer systems to recognize the Year 2000. As these computer systems play an important role in the Company's operations, it is vital that all significant systems operate efficiently and effectively into the next millennium. This issue relates not only to the Company's financial systems, but also to all operational and administrative functions which may have internal clocks or applications which are time-sensitive.

Management of the Company has begun the evaluation and implementation of corrective measures to ensure that the Company's computer systems will be Year 2000 compatible. Responsibility for this area has been delegated to a project team headed by an officer of the Company. The project team is comprised of individuals from all divisions of the organization, both operational and financial. The project has been divided into two separate phases: an evaluation phase and an implementation phase. The evaluation phase of this initiative is substantially complete which involved the documentation of all systems currently in place. Evaluations and conclusions were supported by internal testing and representations received from third-party vendors. As the majority of computer systems currently in place were purchased or developed by third-party vendors, these vendors have been actively involved in the evaluation phase of this project.

A timeline and budget for the implementation of corrective measures has been developed and approved by senior management. To date, all established objectives have been met and no significant issues have been identified. The Company is of the belief that all significant risks and uncertainties have been addressed relating to Year 2000 compliance and expect that all corrective measures will be implemented by mid-1999. The cost of this initiative is considered immaterial to the operations of the Company.

Outlook

Low crude oil prices throughout 1998 and into the early part of 1999 continue to dampen short-term optimism for the North American oil and natural gas industry. The uncertainty associated with the timing of a recovery of certain Asian economies affecting global crude oil demand, combined with the Organization of Petroleum

Exporting Countries' inability to exercise effective control over global crude oil supplies, has resulted in a perceived global oversupply of crude oil. This has resulted in the price of crude oil reaching ten-year lows. This low price environment has had a substantial negative impact on the ability of many oil and natural gas producers to generate cash flow. Additionally, it is currently very difficult for the Company's customers to raise capital through the debt and equity markets. Consequently, oil and natural gas exploration and development budgets have been drastically reduced as indicated by the active drilling rig counts in both Canada and the United States.

A positive influence within the North American oil and natural gas industry continues to be the favorable outlook for natural gas. Natural gas prices, particularly in Canada, continue to be strong and prospects for the future are positive. With expansion of pipeline capacity via the Northern Border and Alliance pipelines continuing to proceed as planned, access for Canadian natural gas to the expanding United States markets should continue to increase. Pipeline expansion, combined with the fact that gas production in Alberta has exceeded reserve replacement in 13 out of the last 14 years, is expected to result in increased natural gas exploration and development activity. The Ensign Group is well-positioned to take advantage of this opportunity with a rig fleet capable of drilling natural gas wells at any depth.

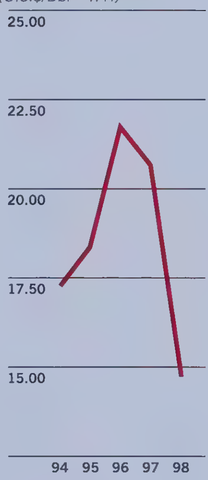
While there have been some positive signals in recent weeks indicating that crude oil prices may be poised for a rebound and that natural gas prices should hold relatively firm, particularly in Canada, the Company is of the opinion that oilfield service activity throughout much of 1999 will be relatively "soft" on an historical basis. Lower activity levels combined with an over-supply of equipment, will continue to erode the profitability of the entire oilfield service sector in the short term. However, even in such a difficult operating environment, the Ensign Group is well positioned to generate positive financial results and take advantage of opportunities that inevitably arise at the bottom of a cyclical industry.

The Canadian Association of Oilwell Drilling Contractors (CAODC) currently forecasts that approximately 8,400 wells will be drilled in Canada in 1999, a further decrease from the 9,744 wells drilled in 1998. The short term outlook for drilling activity levels in the Rocky Mountain region of the United States is also less than optimistic. The Ensign Group's commitment to providing superior service to its customers at a fair price should ensure that the Company maintains market share in both Canada and the United States.

The oilfield service sector faces many challenges in the current environment. The Ensign Group is committed to meeting these challenges and continuing to pursue its strategy for growth. The Company's strong financial position provides the necessary flexibility to pursue opportunities as they arise. With knowledgeable and dedicated management and employees representing the single largest asset of the Company the Ensign Group remains focused on providing value to its shareholders and customers.

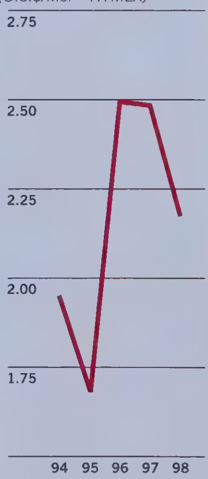
Crude Oil Pricing*

(U.S.$/Bbl – WTI)



Natural Gas Pricing*

(U.S.$/Mcf – NYMEX)



**Source: Daily Oil Bulletin*

Management's Responsibility for Financial Statements

The consolidated financial statements and other information contained in the annual report are the responsibility of the management of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate.

Preparation of financial statements is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable financial statements. The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of the Company's accounting records and procedures to enable them to express an opinion as to the fairness of the consolidated financial statements, in conformity with generally accepted accounting principles.

The Audit Committee, which is comprised of outside Directors, meets with management and the Company's external auditors to review the financial statements and reports on them to the Board of Directors. The financial statements have been approved by the Board of Directors.

Selby Porter
President
March 22, 1999

Glenn Dagenais
Vice President Finance
and Chief Financial Officer

Auditors' Report

To the Shareholders of Ensign Resource Service Group Inc.

We have audited the consolidated balance sheets of Ensign Resource Service Group Inc. as at December 31, 1998 and 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 22, 1999

December 31, 1998 and 1997
(Stated in thousands of dollars)

Consolidated Balance Sheet

	1998	1997
ASSETS		
Current assets		
Cash	**$ 19,204**	$ 2,865
Accounts receivable	**73,221**	148,583
Inventory and other	**12,394**	4,872
	104,819	156,320
Property and equipment *(Note 3)*	**310,156**	177,591
Other, at cost	**1,345**	2,650
	$ 416,320	$ 336,561
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 43,558**	$ 105,262
Operating line of credit *(Note 4)*	**1,245**	11,522
Current portion of long-term debt *(Note 4)*	**16,379**	10,350
	61,182	127,134
Long-term debt, net of current portion *(Note 4)*	**44,823**	26,518
Deferred income taxes	**48,414**	34,317
SHAREHOLDERS' EQUITY		
Share capital *(Note 5)*	**93,835**	19,321
Retained earnings	**168,066**	129,271
	261,901	148,592
	$ 416,320	$ 336,561

Approved by the Board

Director

Director

Year ended December 31, 1998, 1997
(Stated in thousands of dollars, except per share data)

Consolidated Statement of Earnings and Retained Earnings

	1998	1997
Revenue		
Oilfield services	**$ 418,919**	$ 517,500
Expenses		
Oilfield services	**290,920**	359,260
Depreciation	**20,516**	12,493
General and administrative	**18,014**	19,239
Interest – long term	**3,534**	1,804
Interest – other	**536**	1,272
	333,520	394,068
Income before income taxes	**85,399**	123,432
Income taxes *(Note 8)*		
Current	**32,862**	39,209
Deferred	**3,747**	16,188
	36,609	55,397
Income for the year	**48,790**	68,035
Retained earnings, beginning of year	**129,271**	66,182
Dividends	**(9,995)**	(4,946)
Retained earnings, end of year	**$ 168,066**	$ 129,271
Income per share *(Note 5)*		
Basic	**$ 2.16**	$ 3.30
Fully diluted	**$ 2.12**	$ 3.25

Year ended December 31, 1998, 1997
(Stated in thousands of dollars, except per share data)

Consolidated Statement of Changes in Financial Position

	1998	1997
Operating activities		
Income for the year	$ **48,790**	$ 68,035
Charges not affecting cash		
Depreciation	**20,516**	12,493
Deferred income taxes	**3,747**	16,188
Cash provided by operating activities before change in non-cash working capital	**73,053**	96,716
Decrease (increase) in non-cash working capital	**5,665**	(27,733)
Cash provided by operating activities	**78,718**	68,983
Investing activities		
Acquisition of Artisan Corporation *(Note 6)*	**(140,252)**	–
Net disposal (purchase) of property and equipment	**2,175**	(50,437)
Other	**1,306**	850
Cash used in investing activities	**(136,771)**	(49,587)
Financing activities		
Net increase (decrease) in long-term debt	**9,873**	(14,264)
Issue of share capital	**74,514**	781
Dividends paid	**(9,995)**	(4,946)
Cash provided by (used in) financing activities	**74,392**	(18,429)
Increase in cash during the year	**16,339**	967
Cash, beginning of year	**2,865**	1,898
Cash, end of year	$ **19,204**	$ 2,865
Cash flow per share *(Note 5)*		
Basic	$ **3.24**	$ 4.69
Fully diluted	$ **3.14**	$ 4.57

For the purpose of the cash flow per share calculations, cash flow is defined as "Cash provided by operating activities before change in non-cash working capital".

Notes to Consolidated Financial Statements

(tabular amounts stated in thousands of dollars)

1. BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Ensign Resource Service Group Inc. and its wholly-owned subsidiaries and partnership. The companies and partnership carry on the business of providing oilfield services to the oil and natural gas industry.

2. SIGNIFICANT ACCOUNTING POLICIES

Income from contracts

Income from contracts is recorded using the percentage of completion method. Losses are provided for in full when first determined.

Inventory

Inventory, comprised of spare rig parts and equipment, is recorded at the lower of cost and replacement cost.

Property and equipment

Property and equipment are recorded at cost. Depreciation is based on the estimated useful lives of the assets as follows:

Asset	*Depreciation method*	*Estimated useful life (years)*
Rigs and equipment	Straight-line (residual 20%)	15
Buildings	Straight-line	20
Automotive equipment	Straight-line	3
Office furniture and shop equipment	Straight-line	5

Foreign currency translation

Financial statements of the Company's self-sustaining United States operations are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the period for revenues and expenses.

3. PROPERTY AND EQUIPMENT

December 31	*1998*	*1997*
Land and buildings	**$ 4,657**	$ 3,667
Rigs and related equipment	**365,625**	219,044
Automotive and other equipment	**14,194**	10,448
	384,476	233,159
Accumulated depreciation	**74,320**	55,568
	$ 310,156	$ 177,591

Property and equipment with a net book value of approximately $93,449,000 (1997 – $5,348,000) has no tax basis.

4. LONG-TERM DEBT

December 31	*1998*	*1997*
Bank term loan – at prime or bankers' acceptance rate plus 0.8% (1997-0.875%) stamping fee	**$ 59,823**	$ 35,471
Other	**1,379**	1,397
	61,202	36,868
Current portion	**16,379**	10,350
	$ 44,823	$ 26,518

At December 31, 1998, the Company had available operating lines of credit, at the bank prime interest rate or bankers acceptance rate plus 0.625 percent stamping fee, totaling $46,000,000 (1997 – $39,292,000) of which $1,245,000 (1997 – $11,522,000) was utilized at year end.

Collateral for the bank term loan and the operating lines of credit consists of a general security agreement, including a floating charge on certain assets and an assignment of insurance on certain property and equipment.

Principal payments of long-term debt are:

1999	$ 16,379,000
2000	$ 15,000,000
2001	$ 15,000,000
2002	$ 14,823,000

5. SHARE CAPITAL

a) Authorized

Unlimited Common Shares
Unlimited Preferred Shares, issuable in series

b) Outstanding

	1998		*1997*	
	Number	***Amount***	*Number*	*Amount*
Common Shares				
Balance, beginning of year	**20,742,749**	**$ 19,321**	20,429,249	$ 18,540
Issued for the following:				
Acquisition of Artisan Corporation	**2,642,861**	**72,678**	–	–
Exercise of stock options	**218,352**	**2,279**	313,500	781
Purchased per Normal Course Issuer Bid	**(35,000)**	**(443)**	–	–
Total share capital, end of year	**23,568,962**	**$ 93,835**	20,742,749	$ 19,321

c) Options

At December 31, 1998, there were stock options granted to employees, directors and officers, outstanding in respect of 1,489,664 Common Shares (1997 – 985,590) exercisable at prices from $1.85 to $36.60. These options expire at various dates to December 31, 2004.

d) Common Share dividends

During 1998, the Company paid dividends of $9,995,000 (1997 – $4,946,000), being $0.45 per Common Share (1997 – $0.24 per Common Share). A quarterly dividend of $2,657,000, being $0.1125 per Common Share, was declared for payment on March 31, 1999.

e) Normal Course Issuer Bid

On September 29, 1998, the Company filed a Notice of Intention to make a Normal Course Issuer Bid (the "Bid") with the Toronto Stock Exchange. Under the provision of the Bid, the Company purchased 35,000 Common Shares at an average price of 12.64 per share. These shares were subsequently cancelled in accordance with the terms of the Bid.

f) Income per share and Cash flow per share

Income per share and cash flow per share have been calculated on the basis of the weighted average number of Common Shares outstanding for the year which amounted to 22,581,627 shares (1997 – 20,615,674 shares). Fully diluted income per share and fully diluted cash flow per share have been calculated, assuming the exercise of stock options resulting in an average number of Common Shares of 23,724,179 shares (1997 – 21,571,222 shares).

6. ACQUISITION

During 1998, the Company completed the acquisition of all of the issued and outstanding shares of Artisan Corporation ("Artisan"). Artisan provides oilfield services in the areas of drilling, well servicing, manufacturing and production testing. The acquisition has been accounted for by the purchase method with the results of operations of Artisan included in the financial statements from the date of acquisition (May 11, 1998). The details of the acquisition are as follows:

Net assets acquired at assigned values	
Working capital	$ 10,625
Property, plant and equipment	152,348
Long-term debt	(14,460)
Deferred income taxes	(8,261)
	$ 140,252
Consideration	
Common Shares	$ 72,678
Cash	67,574
	$ 140,252

7. SEGMENTED INFORMATION

The Company operates in two geographic segments within one industry segment. Oilfield services are provided in both Canada and the United States. The amounts related to each segment are as follows:

	December 31, 1998		
	Canadian Oilfield Services	***United States Oilfield Services***	***Total***
Revenue	**$ 322,409**	**$ 96,510**	**$ 418,919**
Capital assets	**$ 283,676**	**$ 27,825**	**$ 311,501**

	December 31, 1997		
	Canadian Oilfield Services	*United States Oilfield Services*	*Total*
Revenue	$ 397,517	$ 119,983	$ 517,500
Capital assets	$ 151,735	$ 28,506	$ 180,241

8. INCOME TAX

The provision for income taxes, including deferred income taxes, differs from the expected combined federal and provincial taxes as follows:

	1998	*1997*
Earnings before income taxes	**$ 85,399**	$ 123,432
Income tax rate	**45%**	45%
Expected income tax provision	**$ 38,430**	$ 55,544
Add (deduct):		
Non-taxable dividend income	**(2,065)**	(243)
Non-deductible depreciation	**545**	–
Non-deductible subsistence payments	**1,260**	103
U.S. – lower effective tax rate	**(812)**	–
Other	**(749)**	(7)
Income tax provision	**$ 36,609**	$ 55,397

9. FINANCIAL INSTRUMENTS

The Company's financial instruments as at December 31, 1998 included cash, accounts receivable, accounts payable and accrued liabilities, and the operating line of credit. Due to the current nature of these items, carrying amounts are considered to approximate fair value.

Also, the Company's financial instruments as at December 31, 1998 included long-term debt. Substantially all of this debt is floating at the prime rate and, accordingly, the carrying amount is considered to approximate fair value.

The Company is exposed to credit risk in relation to its accounts receivable at December 31, 1998. As substantially all of the Company's customers are relatively well financed and established oil and gas companies, the level of credit risk is considered by management to be minimal.

10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Selected Financial Data

Ten Year Financial History

($000s, except for per share data and ratios)	***1998***	*1997*	*1996*	*1995*
Revenue	**418,919**	517,500	245,429	180,665
Gross margin	**127,999**	158,240	67,907	46,216
Gross margin % of revenue	**30.55**	30.58	27.67	25.58
Depreciation	**20,516**	12,493	6,430	4,964
Net income	**48,790**	68,035	25,828	17,148
Per common share				
Basic	**2.16**	3.30	1.27	0.89
Fully diluted	**2.12**	3.25	1.26	0.87
Cash flow	**73,053**	96,716	38,176	25,985
Per common share				
Basic	**3.24**	4.69	1.88	1.36
Fully diluted	**3.14**	4.57	1.83	1.30
Net capital expenditures (disposals) – excluding acquisitions	**(2,175)**	50,437	83,185	5,580
Working capital (deficit)	**43,637**	29,186	(4,164)	14,378
Long-term debt, net of current portion	**44,823**	26,518	36,132	3,951
Shareholders' equity	**261,901**	148,592	84,722	62,009
Long-term debt to equity	**0.2:1**	0.2:1	0.4:1	0.1:1
Weighted average common shares outstanding	**22,581,627**	20,615,674	20,319,543	19,004,184
Closing share price, December 31	**13.50**	34.60	25.25	7.00

N/A – Not Available

Quarterly Financial Information

(unaudited) ($000s, except per share data)	***1998***				*1997*			
Quarter Ended	***Dec. 31***	***Sept. 30***	***Jun. 30***	***Mar. 31***	*Dec. 31*	*Sept. 30*	*Jun. 30*	*Mar. 31*
Revenue	**82,456**	**87,168**	**87,655**	**161,640**	153,705	141,658	96,082	126,055
Income	**8,726**	**6,972**	**8,053**	**25,039**	23,637	19,693	9,481	15,224
Per common share								
Basic	**0.37**	**0.30**	**0.36**	**1.20**	1.13	0.96	0.47	0.74
Fully diluted	**0.37**	**0.30**	**0.35**	**1.18**	1.13	0.93	0.46	0.73
Cash flow	**15,152**	**14,231**	**12,733**	**30,937**	35,369	24,763	16,073	20,511
Per common share								
Basic	**0.64**	**0.60**	**0.57**	**1.49**	1.70	1.20	0.79	1.00
Fully diluted	**0.63**	**0.59**	**0.55**	**1.45**	1.67	1.17	0.76	0.97

1994	1993	1992	1991	1990	1989
174,940	92,715	41,341	33,503	16,884	3,631
46,606	18,886	8,647	6,515	2,296	952
26.64	20.37	20.92	19.45	13.60	26.21
3,412	2,213	1,407	1,375	693	824
19,165	8,258	3,438	1,361	(2,096)	(877)
1.06	0.49	0.23	0.10	(0.24)	(0.35)
0.95	0.43	0.21	0.09	–	–
25,703	13,552	4,709	2,878	(551)	(53)
1.44	0.82	0.34	0.21	(0.06)	(0.02)
1.26	0.71	0.28	0.17	–	–
28,352	6,990	4,850	7,833	11,773	(65)
(1,049)	1,014	(562)	(1,161)	(1,624)	58
6,876	6,140	8,343	7,066	4,897	1,133
46,825	27,749	16,948	11,563	10,124	3,405
0.1:1	0.2:1	0.5:1	0.6:1	0.5:1	0.3:1
17,874,053	16,488,678	13,813,997	13,738,594	8,506,614	2,504,866
5.00	5.63	1.45	1.00	N/A	N/A

Share trading summary

For the three months ended	High ($)	Low ($)	Close ($)	Volume	Value ($)
1998					
March 31	**35.80**	**23.00**	**32.75**	**5,656,760**	**158,736,672**
June 30	**34.05**	**23.50**	**25.00**	**3,268,592**	**97,301,813**
September 30	**25.95**	**11.50**	**15.00**	**7,552,671**	**134,822,464**
December 31	**19.50**	**12.50**	**13.50**	**6,649,024**	**97,553,017**
Total				**23,127,047**	**488,413,966**
1997					
March 31	32.00	25.00	25.50	5,116,675	144,411,263
June 30	33.00	24.00	32.65	2,937,190	78,918,949
September 30	54.00	32.00	47.00	4,272,042	178,740,937
December 31	57.00	31.60	34.60	6,770,544	294,478,195
Total				19,096,451	696,549,344

Additional Information

The Company

Ensign Resource Service Group Inc. was incorporated on March 31, 1987 pursuant to the provisions of the Business Corporations Act (Alberta). Pursuant to a prospectus, on December 15, 1987, the Company became a reporting issuer in the Province of Alberta.

Subsidiaries and Partnership

The following table sets forth the principal operating subsidiaries and partnership of the Company, the percentage of shares owned, directly or indirectly, by the Company and the jurisdiction of incorporation or continuance of the subsidiaries as of December 31, 1998:

Name of Subsidiary/Partnership	*Jurisdiction of Incorporation or Continuance*	*Percentage of shares beneficially owned or controlled by the company*
Artisan Corporation	Alberta	100%
Caza Drilling Inc.	Colorado	100%
Champion Drilling Inc.	Alberta	100%
Continuous Tubing Inc.	Alberta	100%
Ensign Drilling Inc.	Alberta	100%
Ensign Servicing Partnership	Alberta	100%
Leyen Oilwell Servicing Ltd.	Saskatchewan	100%
Opsco Energy Industries Ltd.	Alberta	100%
Rockwell Servicing Inc.	Alberta	100%
Tri-City Drilling (1968) Ltd.	Alberta	100%

Recent Acquisitions

February 25, 1997	Purchased Rotation Well Servicing Ltd., which owned and operated four well servicing rigs in western Canada.
March 10, 1997	Acquired five drilling rigs in Canada from Viper Drilling (1984) Ltd.
June 2, 1997	Acquired one well servicing rig in Canada from Twilite Well Servicing Ltd.
August 6, 1997	Acquired one well servicing rig in Canada from J & J Koch Holdings Ltd.
August 7, 1997	Acquired two well servicing rigs in Canada from Starwell Servicing Ltd.
November 1, 1997	Acquired three well servicing rigs in Canada from G & W Well Servicing Ltd.
May 11, 1998	Acquired Artisan Corporation by way of merger

Description of the Business

All of the Company's revenue is derived from the provision of oilfield services supplied through eight divisions, which include the subsidiaries listed previously. The following identifies the principal operating divisions of the Company and their fleet size as at March 31, 1999:

Division	*Fleet size*	*Area of operation*
Champion Drilling	25 drilling rigs	Western Canada
Ensign Drilling	76 drilling rigs	Western Canada
Tri-City Drilling	35 drilling rigs	Western Canada
Caza Drilling	46 drilling rigs	Rocky Mountain region, United States
Leyen Oilwell Servicing	51 well servicing rigs	Western Canada
Rockwell Servicing	64 well servicing rigs	Western Canada
Continuous Tubing	13 coiled tubing units	Western Canada
Opsco Industries		Western Canada

Seasonality

The oil and natural gas oilfield services industry is subject to a degree of seasonality. Canadian operating activities within the industry are generally lower in April and May, during spring break-up. Activity tends to increase in the fall and peaks during the winter months of December through to March. United States operating activities tend to be lowest in the first quarter and build through the remainder of the year.

Operating Management

ENSIGN DRILLING

Selby Porter
President

Bob Geddes
Vice President and Chief Operating Officer

Wayne Kipp
Vice President Operations

Marv Clifton
Vice President – Drilling

Earle Routly
Vice President – Drilling

Tom Fellows
Sales and Marketing Director

Rick Simonton
Contracts Manager

Bob Zanusso
Operations Manager

Dave Fyhn
Manager Administration

Paul Meade-Clift
Operations Engineering Manager

Wayde Barker
Drilling Superintendent

Manfred Behnke
Drilling Superintendent

David Surridge
Drilling Superintendent

Dale Leitner
Drilling Superintendent

Rick Mann
Drilling Superintendent

Harry Reimchen
Drilling Superintendent

Rick Vanee
Drilling Superintendent

Wayne Zandee
Drilling Superintendent

Rob Wilman
Safety Coordinator

Ralph Cock
Equipment Manager

Hank VanDrunen
Shop Manager

Evonne Lajeunesse
Chief Accountant

Cindy Hames
Personnel Manager

Walter Hopf
Field Safety Coordinator

Don Juska
Safety and Training Coordinator

Peri Kimber
Operations Administrator

Jim Campbell
Sales Representative

Herb McAleenan
Sales Representative

Jeff Tywoniuk
Sales Representative

Ed Wylie
Sales Representative

Tom McDonald
Business Manager

Arnet Pachal
Materials Coordinator

Judy Selby
Contracts Administrator

Joe Brlekovich
Maintenance Superintendent

Ron Pettapiece
Senior Operations Engineer

TRI-CITY DRILLING

Alex Racine
President

Rose Marie Kody
General Manager

Hans Jandl
Drilling Superintendent

Ian Mossop
Drilling Superintendent

Mike Przysiezny
Drilling Superintendent

Marsh Lazarenko
Safety and Training Coordinator

Gerard Tetreau
Personnel

CHAMPION DRILLING

Selby Porter
President

Joe Hemsing
General Manager

Lyle Whitmarsh
Operations Manager

Keith Mattson
Field Superintendent

Darryl Maser
Field Superintendent

Dean Ulmer
Safety and Personnel

Linda Brooker
Chief Accountant

CAZA DRILLING INC.

Selby Porter
President

Ed Kautz
Managing Director

Mike Nuss
General Manager, Operations and Contracts

Tom Schledwitz
General Manager, Operations and Engineering

Steve Hunt
Controller

Gene Gaz
Drilling Manager

Hugh Giberson
Drilling Manager

Jim McCathron
Drilling Manager

Jeff Salen
Drilling Manager

Mel Curtis
Drilling Superintendent

Dan Welshmeyer
Safety Coordinator

Larry Lorenz
Equipment Manager

Helen Cardon
Office Manager

ROCKWELL SERVICING

Glenn Dagenais
President

Bryan Toth
Vice President and General Manager

Lyle Aubin
Operations Manager

Kirk Schroter
Divisional Controller

Art Brunet
Field Safety Coordinator

Ken McInnis
Marketing Manager

Marguerite Ginn
Administrative Co-ordinator

Larry Gates
Sales Representative

Wayne Lawson
Sales Representative

Gary Short
Sales Representative

Derrick Sparks
Sales Representative

Jeff Hallwachs
Station Manager Ardmore

Jean Beaudoin
Field Superintendent Ardmore

Lyndon Irving
Station Manager Brooks

Fred Steward
Station Manager Grande Prairie

R.J. Toth
Station Manager Red Deer

Gord Riguidel
Field Superintendent Red Deer

Abe Shihinski
Field Superintendent Red Deer

LEYEN OILWELL SERVICING

Glenn Dagenais
President

Bryan Toth
Vice President and General Manager

Darwin Dean
Operations Manager

Art Brunet
Field Safety Coordinator

Vern McKinnon
Shop Manager

Emil Wark
Chief Accountant

Barren Graham
Field Superintendent Bonnyville

Miles Kosteriva
Field Superintendent Kitscoty

Roger Snider
Field Superintendent Wainright

CONTINUOUS TUBING

Doug Zimmer
General Manager

William Frizzell
Operations Manager

Jim Tomlinson
Superintendent

Julia Hawes
Chief Accountant

OPSCO ENERGY INDUSTRIES

Boyd Doll
General Manager

Buzz Bradley
Marketing and Sales Manager

Ashraf Rajabali
Manufacturing Manager

Bob Dear
Production Testing Manager

Keith Delaney
Wireline Manager

Dale Doering
Financial Controller

Jim Bucek
Safety Supervisor

Corporate and Field Offices

ENSIGN DRILLING INC.
900, 400 Fifth Avenue S.W.
Calgary, AB T2P 0L6
Telephone (403) 262-1361
Facsimile (403) 266-3596

Nisku Operations Centre
2001 Fourth Street
Nisku, AB T9E 7W6
Telephone (780) 955-8808
Facsimile (780) 955-7208

Estevan Office
Telephone (306) 634-9411
Facsimile (306) 634-6652

Grande Prairie Office
Telephone (780) 567-2993
Facsimile (780) 567-3012

TRI-CITY DRILLING (1968) LTD.
14305 – 120 Avenue
Edmonton, AB T5L 2R8
Telephone (780) 453-3771
Facsimile (780) 453-3198

CHAMPION DRILLING INC.
1 Tree Road
P.O. Box 1090
Brooks, AB T1R 1B9
Telephone (403) 362-4400
Facsimile (403) 362-6165

CAZA DRILLING INC.
Suite 360, 1801 Broadway
Denver, CO USA 80202
Telephone (303) 292-1206
Facsimile (303) 292-5843

ROCKWELL SERVICING INC.
860, 400 Fifth Avenue S.W.
Calgary, AB T2P 0L6
Telephone (403) 265-6361
Facsimile (403) 262-0026

Ardmore Station
Telephone (780) 826-6464
Facsimile (780) 826-4305

Brooks Station
Telephone (403) 362-3346
Facsimile (403) 362-6069

Grande Prairie Station
Telephone (780) 539-6736
Facsimile (780) 539-1993

Red Deer Station
Telephone (403) 346-6175
Facsimile (403) 343-6061

LEYEN OILWELL SERVICING LTD.
6302 – 53 Avenue
Lloydminster, AB T9V 2E2
Telephone (780) 875-5278
Facsimile (780) 875-6402

Provost Office
Telephone (780) 753-8326
Facsimile (780) 753-8327

CONTINUOUS TUBING INC.
860, 400 Fifth Avenue S.W.
Calgary, AB T2P 0L6
Telephone (403) 265-6361
Facsimile (403) 262-0026

Provost Office
Telephone (780) 753-8326
Facsimile (780) 753-8327

OPSCO ENERGY INDUSTRIES LTD.
415 Monument Place S.E.
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Facsimile (403) 292-6414

Corporate Information

DIRECTORS

Jack Donald
Chief Executive Officer
Parkland Industries Ltd.

N. Murray Edwards [1, 2, 3]
President
Edco Financial Holdings Ltd.

James B. Howe [1, 2, 3]
President
Bragg Creek Financial Consultants Ltd.

Donald Jewitt [1, 2]
President
Veteran Resources Inc.

Len Kangas [2]
Independent Businessman

Selby Porter
President
Ensign Resource Service Group Inc.

John Schroeder [1, 3]
Chief Financial Officer
Parkland Industries Ltd.

George S. Ward
Independent Businessman

Committee Members

[1] *Audit*
[2] *Corporate Governance*
[3] *Compensation*

CORPORATE MANAGEMENT

N. Murray Edwards
Chairman

Selby Porter
President

Glenn Dagenais
Vice President Finance and
Chief Financial Officer

Tom Medvedic
Corporate Controller

HEAD OFFICE

900, 400 – Fifth Avenue S.W.
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Royal Bank of Canada
Canadian Imperial Bank of Commerce

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Burnet, Duckworth & Palmer

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: ESI

TRANSFER AGENT

Montreal Trust Company of Canada

WEBSITE

Please visit our website
commencing in the
spring of 1999 at:
www.ensigngroup.com

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